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TESTIMONY BY REP. VIC FAZIO

ON THE IMPACT OF FY 86 BUDGET PROPOSALS

UPON FEDERAL EMPLOYEES AND RETIREES

BEFORE THE HOUSE SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS

February 26, 1985

This Subcommittee, under your leadrship Madam Chair, has championed a responsible course in Federal pay and benefits--one that has kept faith with both the public servant and with the taxpayer. We owe you a debt of thanks. I know that our Task Force Members look forward to working with you and your Subcommittee to continue on a responsible course in Federal pay and benefits policy.

Our Task Force analysis demonstrates how badly we have breached our good faith commitment to keep Federal pay in line with private sector pay. We have failed even by the most conservative standards. When an enterprise in the private sector fails to meet the market rates for labor for a period of years, it finds itself trapped in a downward spiral. Its most productive people bail out. Successful retrenchment plans always minimize the period in which wages and benefits are cut. Such plans plot a clear course toward restoring pay to market rates.

Private workers have suffered the pain of retrenchment in a number of major companies, but in most instances, companies took pains not to breach faith with their workers. Private executives worked hard to avoid conveying a sense of hopelessness to their workers and to the public.

<u>It's time to give Federal workers a boost.</u>

After eight years of pay cuts--and when we fail to meet the going private rate we are cutting pay--Federal workers realize that belt-tightening is not a one-year or two-year or three-year affair. It has become an annual exercise in real dollars and sense sacrifice. The snowball effects just described for the Subcommittee literally leave Federal families out in the cold.

Not only has Federal pay fallen short of the average private mark, it has also, since 1970, fallen well behind rising consumer prices. During the last fifteen years, consumer prices have risen 309.1% but Federal pay has increased by only 221.7%. Private sector workers, by comparison, took home 291% in wage increases. They, at least, broke even. Rather than tread water, Federal workers found themselves submerged by a nearly one-third loss in their purchasing power (See chart no. 1).

Since 1970, the Federal payroll shrunk as a share of budget outlays from 13.3% of outlays to 8.8%. Federal workers' share of the

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civilian labor force also dropped from 3.4% to 2.5%--a decline of one-fourth. Federal employment dropped from 2.6 million to 1.72 million (competitive service). (See tables no. 1 , 2 & 3 provided by the Congressional Research Service.)

For fifteen years, we've asked fewer Federal workers to do more with fewer resources--and they have. Their reward has been a steady diet of sacrifice. We have cut their purchasing power by a full third.

Mike Barnes noted that young Americans on the threshhold of their careers recoil from the stigma and sacrifice of Federal service. When we look at these numbers, we can understand why.

We read yesterday in the Washington Post about the Office of Personnel Management dragging its feet on implementing the 1981 consent decree that replaced the PACE exam we used to competitively recruit for Federal service. This foot dragging is symptomatic of an indifference to whether our government can hire talent coveted by the private sector. We have to be able to compete with the private sector. Public service has been a partner in innovation that has spurred private growth and technological advancement. We can not afford to cripple that partnership any more than we can allow Federal deficits to go unchecked.

A disastrous package of proposals

Mike Barnes has described the effects of a 5% paycut on both employees and retirees. For the 1986 retiree, the initial loss in annuity as a result of pay restraint would jump 6 points to 21.7%. In this context, the Administration's proposals to cut deeply into retirement appear, in my judgment, ludicrous.

We rejected most of these proposals last year and many the year before that. Yet, here we are again. Nevertheless, it's worth taking a quick look at the impact of some of these proposals upon the average Federal retiree and the Federal employee who is about to retire. We've selected the proposed change to a high-5 salary base, the proposal to restrain COLA to the lesser of the General Schedule increase or the CPI, and the proposed COLA freeze.

We did not analyze the recommendation to means test the COLA and reduce it for retirees with annuities in excess of $10,000 because we reject the concept that an earned benefit should be means tested. The Civil Service Retirement System is not a need-based entitlement, it is an integral part of our compensation package. Private sector pension practice does not use a means test to adjust annuities for this reason. Further, a means test only reinforces the notion that Federal employees are maintained at the public's expense rather than productively employed in the public interest.

A switch to a high-5 base would cost the 1986 retiree 7% of his or her annuity from the time of retirement through 1990. That comes to $5,220 for the average retiree or $1,044 per year. For the purpose of this analysis, we assumed a 1986 COLA freeze, which I sincerely hope

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we can avoid. (See chart no. 2).

The proposed limitation of COLAs to the lesser of the GS pay raise or the CPI hurts even more. Since the Administration would couple the 5% pay cut with this COLA limitation, Federal annuities could also be reduced by 5%. For the 1986 retiree, the loss for the period 1985 to 1990 would be $5,354 or 6.5% of his annuity. (See chart no. 3)

Similarly, freezing the COLA in 1986 would cost the average retiree $1,836 through 1990, an average of $367 per year. (See chart no. 4). The cumulative effects of a COLA freeze on an average employee retiring in the next year would amount to $9,176 through 1990--an average of $1,835 per year or 11.55% of his or her expected pension per year.

Direct cuts to Civil Service Retirement enacted over the past several years, according to this Committee's own analysis already have been reduced by 10%. If we pile these cuts on top of the extent to which pay cuts limit annuities, it becomes clear why this Committee rejects any further tampering with the existing retirement system--particularly at a time when it must wrestle with legislation to provide a supplemental pension for Federal employees covered under Social Security.

The private sector experience

I would like to take this opportunity to set the record straight on two other points. Those who argue that private workers simply gave back huge portions of their wages in the last year are misleading the American people. Labor did not get up from the bargaining table empty-handed. In exchange for wage concessions, they received additional job security or they participated in innovative programs designed to revitalize the job market in their areas of employment. In 1984, 75% of all collective bargaining agreements included provisions to strengthen worker protection during technological change, work transfer or plant closings.

For example, Republic Airlines, Inc. and Airline Pilots Association agreed last year to a contract that extended a 15% pay reduction that began in October 1982 through the end of March 1987. On its face these appear to be pretty grim figures, even though the effect of the reduction is spread across 6 years. Republic Air, however, as an incentive to its employees, agreed to restore wages by 9% in 1986 if the company shows $20 million in profits. Republic also converted its employee profit-sharing plan into a stock ownership plan (ESOP) and issued 1,666,000 shares of the company's common stock to a trust set up for the employees. The current value of the stock is $6 per share. Along with the stock, employees received voting rights as company share holders.

Eastern Airlines concluded a similar agreement with the Airline Pilots Association. Employees directly invested 18% of their 1984 wages in Eastern stock ($6 per share). The company issued 12 million shares to its employees on a pro rata basis based upon their invested

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pay.

Our Task Force is collecting examples of such quid pro quo agreements and when we have tabulated our findings we will be happy to share them with the Subcommittee. Even preliminary analysis, nevertheless, indicates that give backs are the temporary exception and not the rule in the private sector. In 1986, as we have noted, private salary increases are expected to average 6.9%. As we reach for the zenith of economic recovery, private sector workers are gearing up to participate in the upturn.

I share the Subcommittee's views about the Office of Personnel Management's quit rate analysis. The OPM study, based upon stale data, methodologically indefensible, and from the standpoint of responsible management practice totally incoherent, is yet another exercise in arrogance disguised as fiscal responsibility.

If we want to be fiscally responsible and fully accountable to the American people, we should recognize that the $3.4 billion in savings can be more than offset by the disastrous consequences of a pay cut on productivity and the quality service delivery.

We recently discovered that a one-half percent increase in the error rate in processing Social Security payments can result in a $1 billion loss to the Treasury. Similar losses could ocurr at I.R.S. and other agencies. Such losses would quickly eat up and probably exceed the savings attributable to a pay cut.

Conclusion

In my view, the proposed pay cut and retirement changes in the Administration's FY 86 budget are wholly indefensible. They will not work from a budgetary standpoint. They would come at a disastrous moment for the Federal service--at a time when we should be rebuilding public confidence. They would violate every principle of responsible personnel management now employed in the private sector.

In short, Madam Chair, we have to start paying the going rate for employees. We should be prepared to act responsibly, not precipitously. It's time we restored the pride and confidence that a short time ago characterized public service. It's time we recognized the thousands of employees in government who risk their lives to protect us. It's time we restored the image of the Federal worker on the front lines of America's new frontiers.

This was not empty idealism during John Kennedy's Presidency and it should not be mere rhetoric while Ronald Reagan is in office.

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INCREASES IN SOCIAL SECURITY BENEFITS, FEDERAL CIVILIAN AND MILITARY RETIREMENT, MILITARY PAY, FEDERAL PAY, VETERANS COMPENSATION, AVERAGE WAGES, AND THE CONSUMER PRICE INDEX

YEAR	SOCIAL SECURITY		FED/CIVILIAN MILITARY RETIRE		FEDERAL PAY *		MILITARY PAY		VETERANS COMP		AVERAGE WAGES		CONSUMER PRICE INDEX	
1970	JAN	15.0%	AUG	5.6%	JAN	6.0%	JAN	6.0%	JULY	10.0%	JULY	4.8%	JULY	5.8%
1971	JAN	10.0%	JUNE	4.5%	JAN	6.0%	JAN	6.0%			JULY	5.1%	JULY	4.4%
							NOV	13.1%						
1972	SEPT	20.0%	JULY	4.8%	JAN	5.5%	JAN	5.5%	AUG	10.0%	JULY	7.6%	JULY	3.0%
1973			JULY	6.1%	JAN	5.1%	JAN	5.1%			JULY	7.6%	JULY	5.7%
					OCT	4.8%	OCT	4.8%						
1974	JUNE	11.0%	JAN	5.5%	OCT	5.5%	OCT	5.5%	MAY	17.2%	JULY	6.2%	JULY	11.5%
			JULY	6.3%										
1975	JUNE	8.0%	JAN	7.3%	OCT	5.0%	OCT	5.0%	AUG	11.8%	JULY	4.8%	JULY	9.6%
			AUG	5.1%										
1976	JUNE	6.4%	MARCH	5.4%	OCT	4.8%	OCT	4.8%	OCT	8.0%	JULY	8.1%	JULY	5.5%
1977	JUNE	5.9%	MARCH	4.8%	OCT	7.1%	OCT	7.1%	OCT	6.6%	JULY	7.6%	JULY	6.7%
			SEPT	4.3%										
1978	JUNE	6.5%	MARCH	2.4%	OCT	5.5%	OCT	5.5%	OCT	7.3%	JULY	8.0%	JULY	7.7%
			SEPT	4.9%										
1979	JUNE	9.9%	MARCH	3.9%	OCT	7.0%	OCT	7.0%	OCT	9.9%	JULY	7.6%	JULY	11.4%
			SEPT	6.9%										
1980	JUNE	14.3%	MARCH	6.0%	OCT	9.1%	OCT	11.7%	OCT	14.3%	JULY	5.8%	JULY	13.2%
			SEPT	7.7%										
1981	JUNE	11.2%	MARCH	4.4%	OCT	4.8%	OCT	14.3%	OCT	11.2%	JULY	9.9%	JULY	10.7%
1982	JUNE	7.4%	MARCH	8.7%	OCT	4.0%	OCT	4.0%	OCT	7.4%	JULY	4.9%	JULY	6.7%
1983	DEC	3.5%	APRIL	3.9%					OCT	3.5%	JULY	4.6%	JULY	2.4%
1984	DEC	3.5%	DEC	3.5%	JAN	3.5%	JAN	4.0%	APRIL	3.5%	JULY	4.4%	JULY	4.1%
									DEC	3.2%				
1985	JAN	3.5%	JAN	3.5%	JAN	3.5%	JAN	4.0%	JAN	3.5%	JULY	6.5%	JULY	3.9%
							July	3.0%						
1986	JAN	4.1%	JAN	4.1%	JAN	-5.0%	JAN	...	JAN	4.1%	JULY	6.9%	JULY	4.3%
TOTAL GROWTH COMPOUNDED		378.1%		320.2%		221.7%		318.5%		350.0%		291.2%		309.1%

Chart 1

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Chart 2

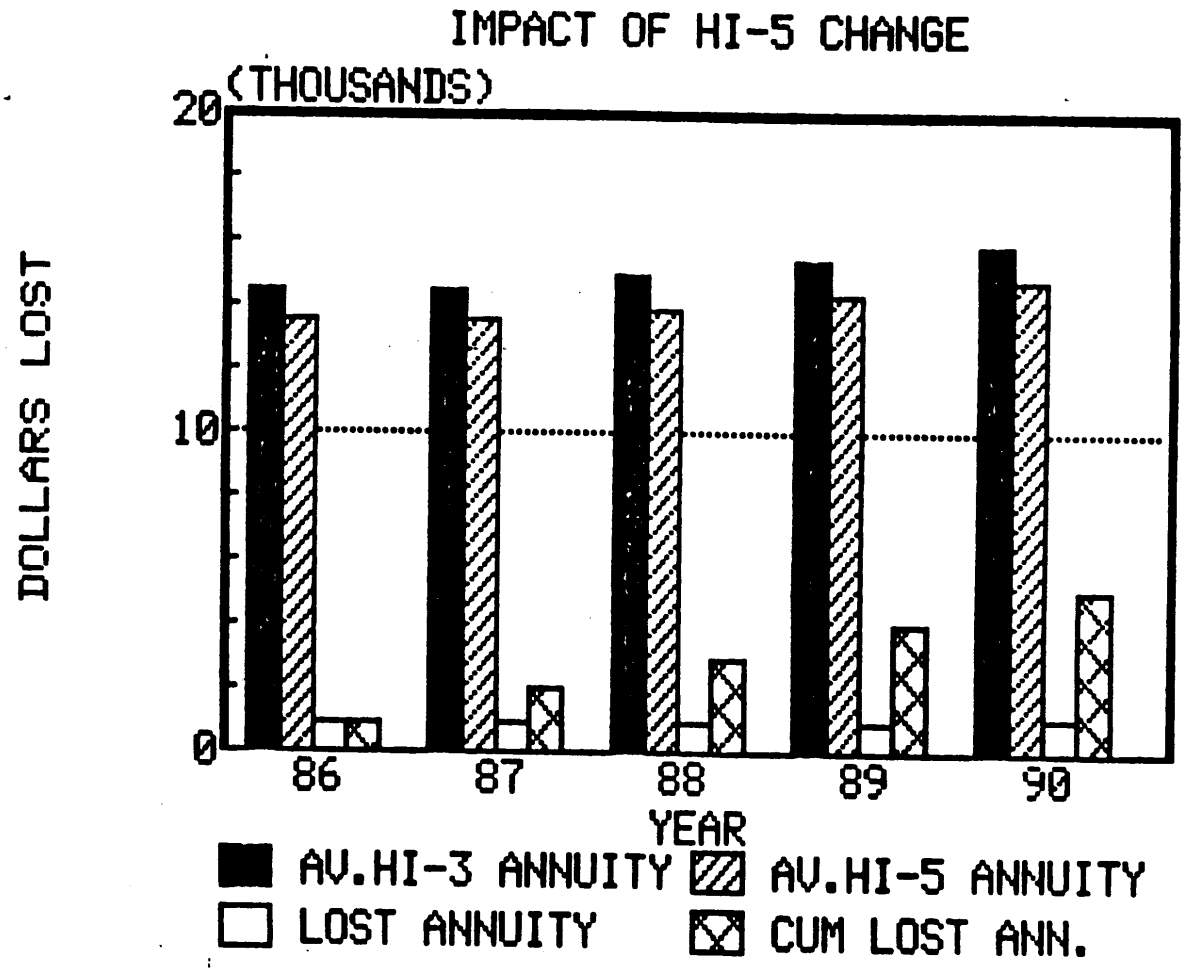

CHART 2

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	AV. HI-3 ANNUITY	AV. HI-5 ANNUITY	LOST ANNUITY	CUM LOST ANN.
86	14554	13546	1007	1007
87	14554	13546	1007	1007
88	14990	13953	1037	1037
89	15440	14371	1068	1068
90	15903	14802	1100	1100

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Chart 3

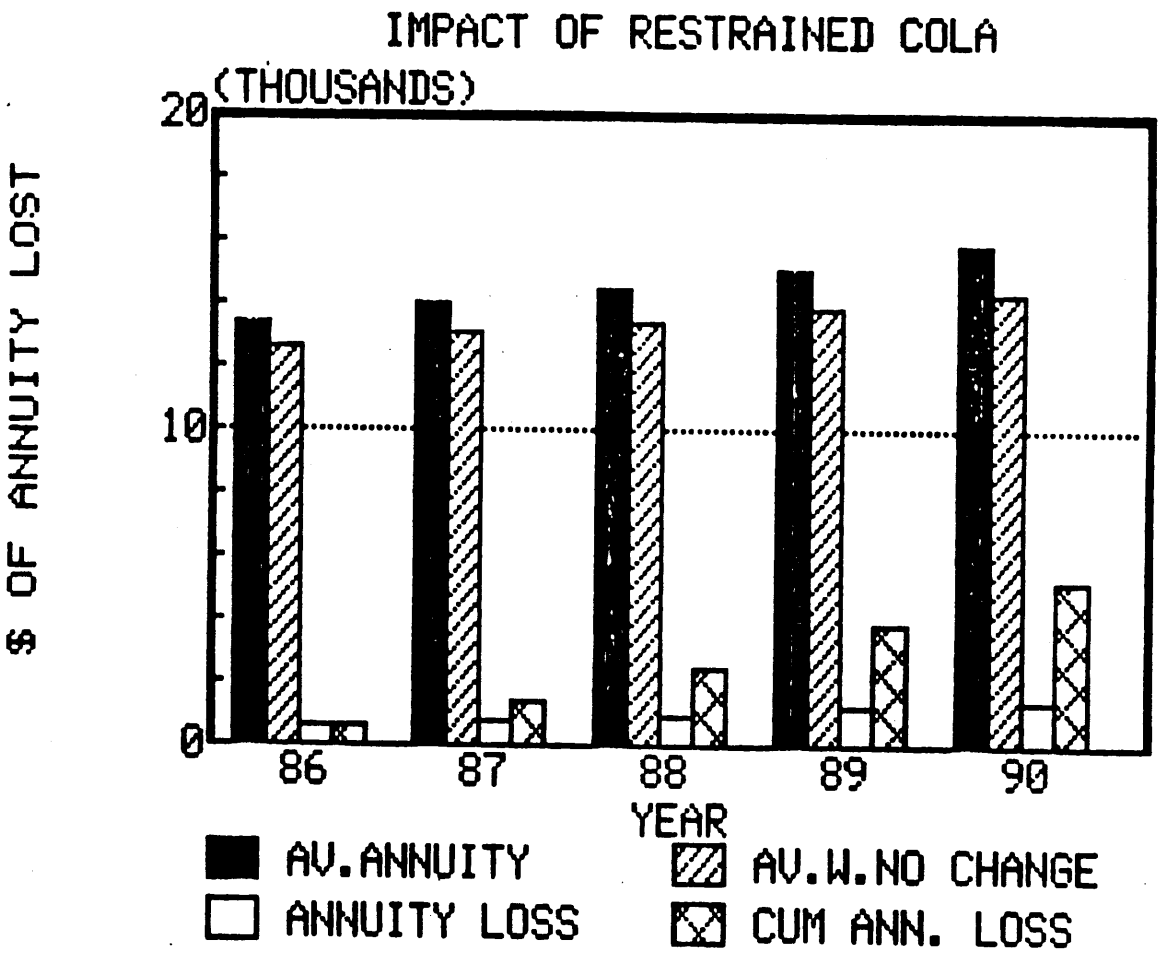

CHART 3

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	AV. ANNUITY	AV. W. NO CHANGE	ANNUITY LOSS	CUM ANN. LOSS
86	13433	12761	671	671
87	14010	13144	866	866
38	14599	13538	1060	1060
39	15212	13944	1267	1267
90	15851	14363	1488	1488

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Chart 4

COLA FREEZE

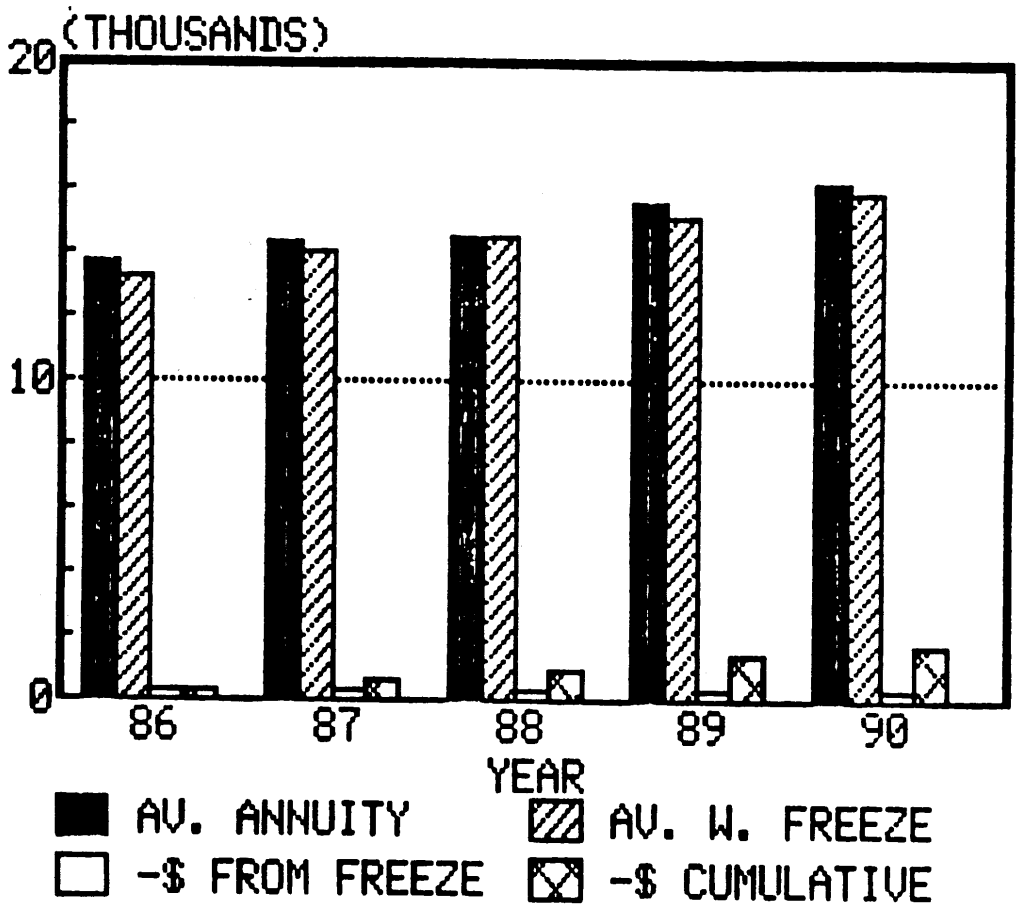

CHART 4

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	AV. ANNUITY	AV. W. FREEZE	-$ FROM FREEZE	-$ CUMULATIVE
86	13783	13344	350	350
87	14348	14010	338	338
88	14599	14599	366	366
89	15594	15212	382	382
90	16249	15851	398	398

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TABLE 4. Federal Civilian Payroll as Percentage of Budget Outlays, 1950-1983

Year	Federal civilian payroll 1/ $	U.S. budget outlays 2/	Federal civilian payroll as percentage of budget outlays
1950	6,671,057,000	42,597,000,000	15.7
1951	7,797,688,000	45,546,000,000	17.1
1952	9,699,175,000	67,721,000,000	14.3
1953	10,148,854,000	76,107,000,000	13.3
1954	9,751,505,000	70,890,000,000	13.8
1955	9,917,734,000	68,509,000,000	14.5
1956	10,592,586,000	70,460,000,000	15.0
1957	11,097,444,000	76,741,000,000	14.5
1958	11,558,773,000	82,575,000,000	14.0
1959	12,427,107,000	92,104,000,000	13.5
1960	12,758,328,000	92,223,000,000	13.8
1961	13,766,981,000	97,795,000,000	14.1
1962	14,420,960,000	106,813,000,000	13.5
1963	15,476,661,000	111,311,000,000	13.9
1964	16,342,808,000	118,584,000,000	13.8
1965	17,402,536,000	118,430,000,000	14.7
1966	18,914,286,000	134,652,000,000	14.0
1967	20,723,618,000	157,608,000,000	13.1
1968	22,630,019,000	178,134,000,000	12.7
1969	24,505,755,000	183,645,000,000	13.3
1970	27,321,909,000	195,652,000,000	14.0
1971	29,474,750,000	210,172,000,000	14.0
1972	31,626,070,000	230,681,000,000	13.7
1973	33,240,383,000	245,647,000,000	13.5
1974	35,661,238,000	267,912,000,000	13.3
1975	39,125,979,000	324,245,000,000	12.1
1976	42,259,472,000	364,473,000,000	11.6
1977	45,894,671,000	400,506,000,000	11.5
1978	49,929,505,000	448,368,000,000	11.1
1979	53,590,892,000	490,997,000,000	10.9
1980	58,011,770,000	576,675,000,000	10.1
1981	63,792,800,000	657,204,000,000	9.7
1982	65,502,988,000	728,375,000,000	9.0
1983	69,877,692,000	795,969,000,000	8.8

1/ U.S. Office of Personnel Management. Workforce Analysis and Statistics Division. Federal Civilian Payrolls Fiscal Year 1950-1983. Handwritten memo to CRS from May Eng, March 1984. These data differ from payroll figures in Table 2 because they are for twelve month periods (fiscal years).

2/ Executive Office of the President. Office of Management and Budget. The United States Budget in Brief: Fiscal Year 1985. Washington, U.S. Govt. Print. Off., 1984. p. 96.

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TABLE 2. Federal Civilian Employment, Payroll, Number in Labor Force and Federal Civilian Employees as Percentage of Labor Force, 1950-1983

Year	Federal civilian employment 1/	Monthly Federal civilian payroll 2/ $	Number in labor force 3/	Federal civilian employees as percentage of labor force
1950	2,117,000	613,400,000	63,377,000	3.34
1951	2,515,000	857,400,000	64,160,000	3.92
1952	2,583,000	855,900,000	64,524,000	4.00
1953	2,385,000	793,100,000	65,246,000	3.66
1954	2,373,000	784,800,000	65,785,000	3.61
1955	2,378,000	845,700,000	67,087,000	3.54
1956	2,410,000	943,700,000	68,517,000	3.52
1957	2,439,000	918,600,000	68,877,000	3.54
1958	2,405,000	1,091,400,000	69,486,000	3.46
1959	2,399,000	1,072,700,000	70,157,000	3.42
1960	2,421,000	1,117,800,000	71,489,000	3.39
1961	2,484,000	1,213,600,000	72,359,000	3.43
1962	2,539,000	1,346,900,000	72,675,000	3.49
1963	2,548,000	1,423,200,000	73,839,000	3.45
1964	2,528,000	1,475,200,000	75,109,000	3.37
1965	2,588,000	1,483,700,000	76,401,000	3.39
1966	2,861,000	1,664,800,000	77,892,000	3.67
1967	2,993,000	1,842,300,000	79,565,000	3.76
1968	2,984,000	2,137,300,000	80,990,000	3.68
1969	2,969,000	2,335,300,000	82,972,000	3.58
1970	2,881,000	2,427,900,000	84,889,000	3.39
1971	2,872,000	2,528,700,000	86,355,000	3.33
1972	2,795,000	2,709,600,000	88,847,000	3.15
1973	2,786,000	3,012,000,000	91,203,000	3.05
1974	2,874,000	3,294,300,000	93,670,000	3.07
1975	2,890,000	3,583,800,000	95,453,000	3.03
1976	2,843,000	3,564,600,000	97,826,000	2.91
1977	2,848,000	3,918,400,000	100,665,000	2.83
1978	2,888,000	4,343,900,000	103,882,000	2.78
1979	2,869,000	4,727,700,000	106,559,000	2.69
1980	2,907,000	5,215,700,000	108,544,000	2.68
1981	2,865,000	5,238,600,000	110,315,000	2.60
1982	2,848,000	5,959,000,000	111,872,000	2.55
1983	2,875,000	6,301,500,000	113,226,000	2.54

See footnotes on next page.

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1/ U.S. Department of Commerce. Bureau of the Census. 1977 Census of Governments, Vol. 3, Public Employment, No. 2, Compendium of Public Employment. Washington, U.S. Govt. Print. Off., 1979. p. 10 (for years 1950-1977). U.S. Department of Commerce. Bureau of the Census. Public Employment in 1978-1983. Washington, U.S. Govt. Print. Off., 1979-1984. p. 1, 7, 9. (October 31 rounded totals used except for 1957, which is an April total.) Federal civilian employment includes all civilian Government employees working in the United States and abroad, except for those in the uniformed military, the Central Intelligence Agency, and the National Security Agency.

2/ Ibid. Federal civilian payroll includes all salaries, wages, fees, or commissions paid to employees and represents gross payrolls for one-month period of October.

3/ U.S. Department of Labor, Bureau of Labor Statistics. Employment and Earnings. Washington, U.S. Govt. Print. Off., Jan., 1984. p. 17. Number in labor force includes all those aged 16 and over who are not institutionalized and who are civilians employed in either agricultural and nonagricultural industries, the resident armed forces, or unemployed.

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TABLE 3

TABLE 6. Extension of the Competitive Civil Service, 1884-1983--Continued

Year	Federal civilian employment	Federal employees under competitive civil service	
		Number	Percent
1943	3,299,414	4/	4/
1944	3,332,356	4/	4/
1945	3,816,310	4/	4/
1946	2,696,529	4/	4/
1947	2,111,001	1,692,065	80.2
1948	2,071,009	1,707,220	82.4
1949	2,102,109	1,771,927	84.3
1950	1,960,708	1,656,803	84.5
1951	2,482,666	2,144,882	86.4
1952	2,600,612	2,247,692	86.4
1953	2,558,416	2,138,899	83.6
1954	2,407,676	1,992,057	82.7
1955	2,397,309	2,004,853	83.6
1956	2,398,736	2,042,007	85.1
1957	2,417,565	2,067,285	85.5
1958	2,382,491	2,032,944	85.3
1959	2,382,807	2,042,034	85.7
1960	2,398,704	2,050,938	85.5
1961	2,435,804	2,096,635	86.1
1962	2,514,197	2,159,050	85.9
1963	2,527,960	2,164,163	85.6
1964	2,500,503	2,153,658	86.1
1965	2,527,915	2,154,992	85.2
1966	2,759,019	2,367,100	85.8
1967	3,002,461	2,485,863	82.8
1968	3,055,212	2,569,752	84.1
1969	3,076,414	2,549,506	82.9
1970	2,981,574	2,410,054	80.8
1971	2,922,841 5/	2,375,887	81.3
1972	2,158,799	1,713,412	79.4
1973	2,126,312	1,694,843	79.7
1974	2,185,916	1,648,741	75.4

5/ Effective July 1, 1971, all employees of the U.S. Postal Service were converted from the competitive service to the excepted service under the authority of P.L. 91-375 (84 Stat. 719 et seq.), approved August 12, 1970. For the years 1972-1983, postal employee totals from Table 5 have been substracted from the Federal civilian employment totals.

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TABLE 6. Extension of the Competitive Civil Service, 1884-1983--Continued

Year	Federal civilian employment	Federal employees under competitive civil service	
		Number	Percent
1975	2,197,770	1,663,228	75.7
1976	2,204,955	1,661,532	75.4
1977	2,234,944	1,652,269	73.9
1978	2,278,780	1,679,532	73.7
1979	2,283,650	1,668,272	73.1
1980	2,455,541	1,749,795	71.3
1981	2,282,737	1,731,112	75.8
1982	2,249,244	1,727,772	76.8
1983	2,257,436	1,729,775	76.6

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